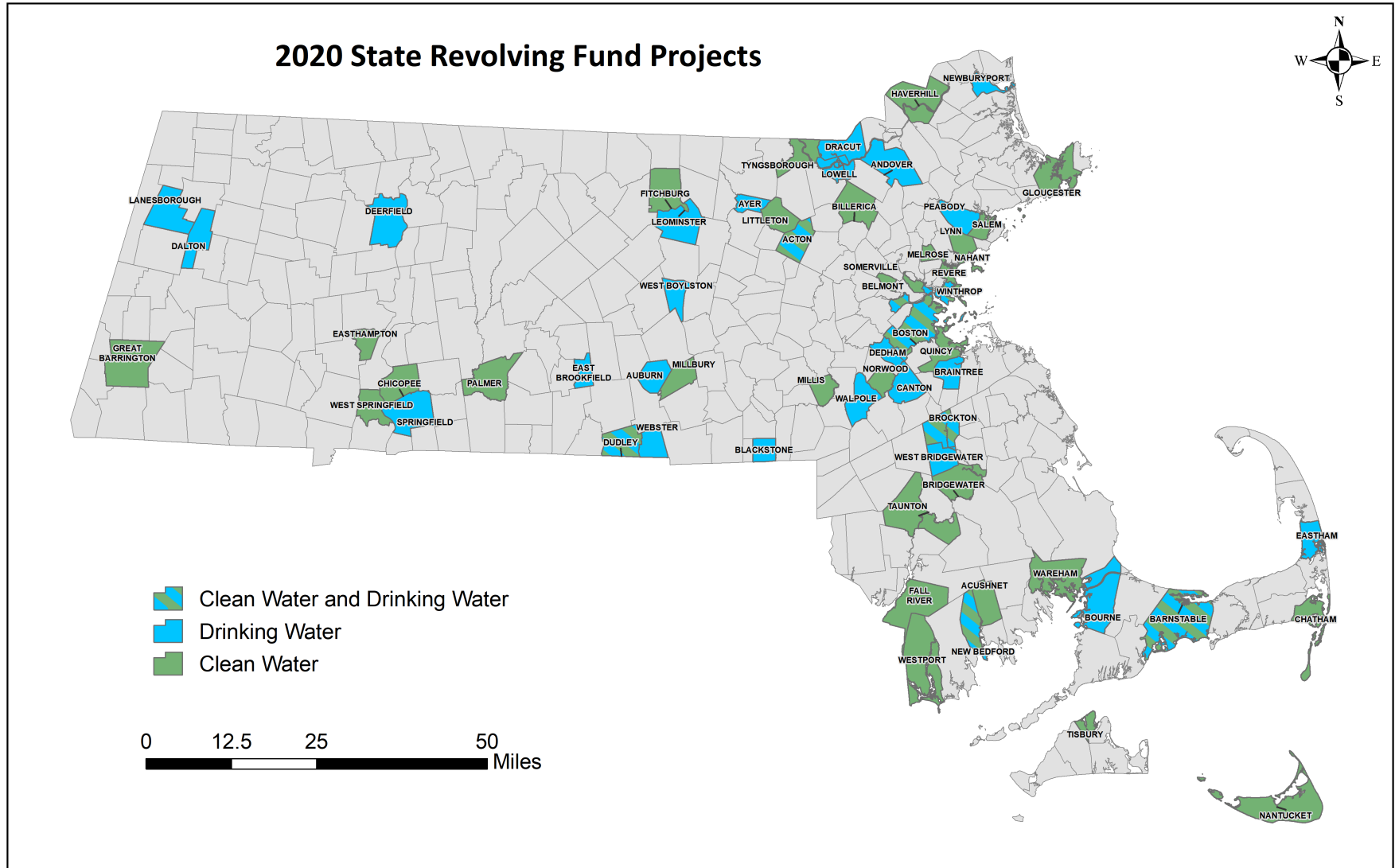


GUIDE TO SRF FINANCING

APRIL 2020



2020 STATE REVOLVING FUND PROJECTS



THE ADVANTAGES OF SRF FINANCING

FIXED LOW-INTEREST RATE LOANS

- Set by statute and allow for stable planning
- 20-year terms at 2% interest
- 21-30 year terms currently estimated at 2.4% interest
- Certain projects are eligible for reduced or 0% interest

INTERIM LOANS (CONSTRUCTION LOANS)

- Loans at 0% interest and no fees during construction
- Allows for one-stop financing

LOAN FORGIVENESS (ADDITIONAL SUBSIDY)

- Massachusetts provides additional subsidy in the form of loan forgiveness
- In 2019, the Board of Trustees approved over \$21 million in loan forgiveness

SPECIAL PROGRAMS

Innovative ways to make projects more accessible and affordable

- Asset Management Planning Grants
- Incentivized Lead Service Replacement

SPECIAL PROGRAMS

ASSET MANAGEMENT PLANNING (AMP) GRANT PROGRAM

- Assists communities with completing or updating asset management plans for wastewater, drinking water, stormwater utilities, or any combination of the three
- AMP grants assist with meeting federal Fiscal Sustainability Planning requirements
- Grants up to \$150,000 or 60% of the eligible project cost, whichever is less
- 2% interest loans available to communities to finance the required contribution.
 - Limited to 5-year term

INCENTIVIZED LEAD SERVICE LINE (LSL) REPLACEMENT PROGRAM

- The Trust will fund the homeowner costs associated with an LSL replacement by converting future loan interest into current loan principal
- Projects involving water main replacements and LSL replacements are eligible
- Replacing private portions of LSLs will be at no additional cost to the community and at no cost to the homeowners willing to participate
- As loan principal increases, loan interest is adjusted accordingly to keep total cost the same

We are happy to answer questions about current or future LSL projects.

LOAN PILOT PROGRAM FOR PFAS TREATMENT

- The Clean Water Trust's Board of Trustees has approved a 0% interest emergency financing program for per- and polyfluoroalkyl substances (PFAS) treatment projects.
- Applications for emergency financing must be received by MassDEP by the end of calendar year 2020 to qualify for a 0% interest loan.
- Projects must address documented heightened levels of PFAS in drinking water and must be implemented in an expedited time frame.
- Note that borrowers submitting long term mitigation projects may receive a request to apply through the annual SRF solicitation.

LOAN FORGIVENESS

- An additional subsidy provided by reducing the principal amount of the loan
- Determined by an annual affordability calculation ranking communities into affordability tiers
- A fixed percentage of forgiveness is provided based on the tier and program
- These percentages are for the 2020 IUP and may be different in future years

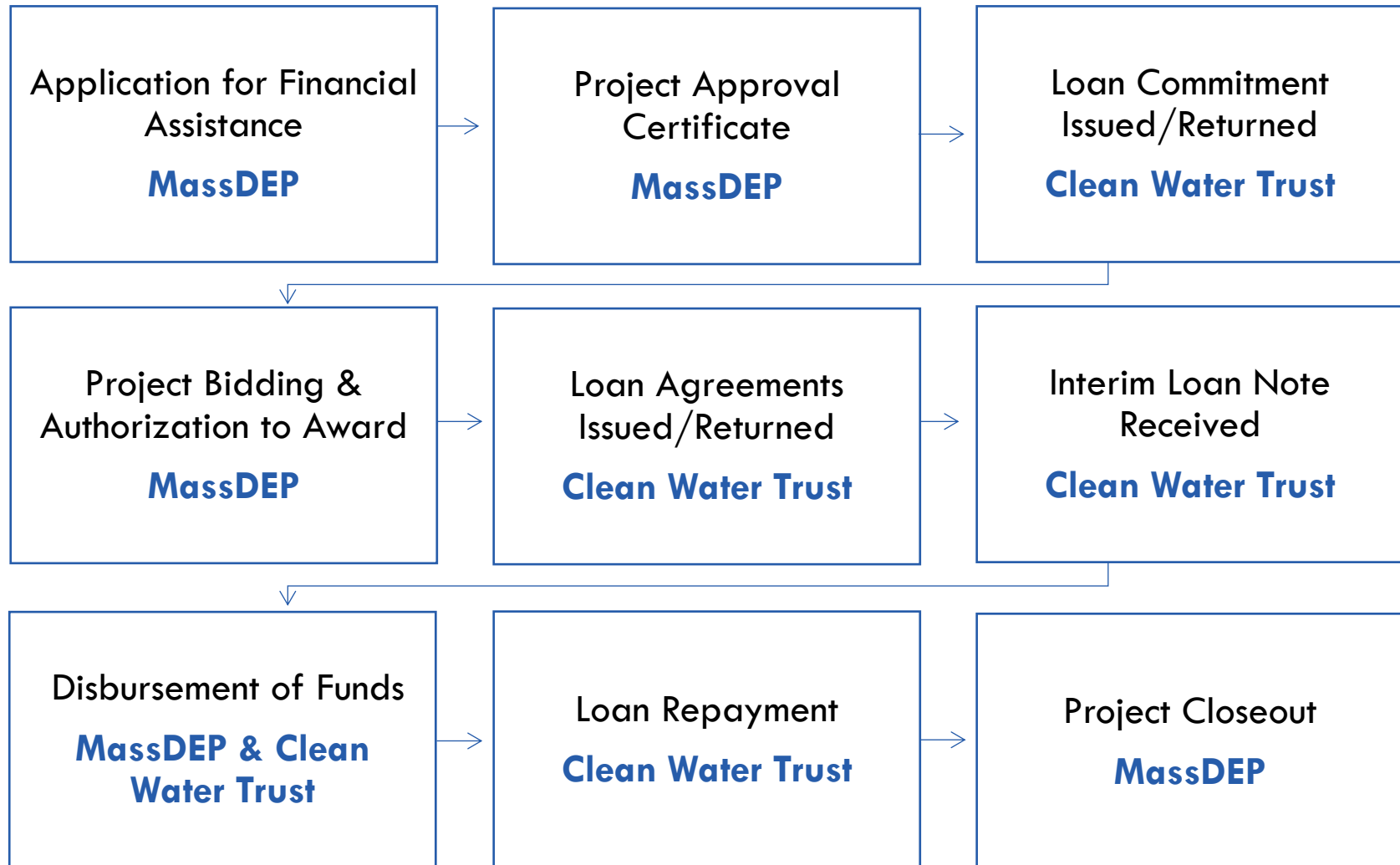
Program Tier	% of Forgiveness	Example: Applied to \$10,000,000 Loan
		Forgiveness Amount
CWSRF Tier I	3.3%	\$330,000
CWSRF Tier II	6.6%	\$660,000
CWSRF Tier III	9.9%	\$990,000
DWSRF Tier I	6.6%	\$660,000
DWSRF Tier II	13.2%	\$1,320,000
DWSRF Tier III	19.8%	\$1,980,000

CWSRF: Clean Water State Revolving Fund

DWSRF: Drinking Water State Revolving Fund

NOTE: The adoption of an enterprise or restricted utility account is a prerequisite for the receipt of any enhanced SRF subsidy.

SRF LOAN PROCESS



TWO AGENCIES, ONE SERVICE

**MASSACHUSETTS DEPARTMENT OF
ENVIRONMENTAL PROTECTION
(MassDEP) | PROGRAM**

**MASSACHUSETTS CLEAN WATER
TRUST (Trust) | FINANCE**

MAJOR ROLES

MASSDEP

- Overseeing Project Solicitation and Evaluation Forms
- Developing the IUP Project Lists
- Receiving Applications for Financial Assistance (Loan and Grant Applications)
- Issuing Project Approval Certificates
- Overseeing Project Bidding and Awarding
- Issuing Project Regulatory Agreements
- Receiving and Approving Payment Requisitions
- Project Closeout

TRUST

- Sending and Receiving Loan Commitment Package Documents
- Sending and Receiving Financing Agreement Package Documents
- Interim Loan Closing
- Final Payment Requisition Approval and Disbursing Proceeds
- Loan Repayment (Permanent Financing)

READINESS TO PROCEED

- A major component of the SRF process is the “Readiness to Proceed”
- EPA requires deadlines for SRF financing
- There is some flexibility, but a consistent set of deadlines
- Communities on the published Intended Use Plan (IUP) must adhere to an application schedule
- A list of deadlines can be found at the end of this presentation
- The most **imminent** deadline is the vote for Local Authorization by **October 16, 2020**

LOCAL AUTHORIZATION

- A community vote at town meeting or equivalent is needed for an authorization to borrow debt
- The borrowed debt is a general obligation pledged as security
- Authorization needs to account for:
 - Eligible and ineligible costs
 - Construction management fees & 10% contingency
 - Police details
 - Inflation
- Better to overestimate than underestimate costs
- Required for the Loan Application

DEADLINE

- Local Authorization must be voted by
October 16, 2020

LOAN APPLICATION

After appearing on the IUP, a community must complete an application for financial assistance

DEADLINE

Due to MassDEP on or before **October 16, 2020**

CONSTRUCTION PROJECT REQUIREMENTS

- Plans and specifications
- Local debt authorization
- Required SRF documentation
- Construction schedules
- Permits for construction

PLANNING PROJECT REQUIREMENTS

- Scope of services/Plan of study
- Local debt authorization
- Required SRF documentation

PROJECT APPROVAL CERTIFICATE (PAC)

MassDEP will issue a PAC after a complete loan application package has been submitted.

DEADLINE

MassDEP must issue a PAC by
December 31, 2020

- If any requirements are not met by December 31, 2020, the PAC will be “restricted”
- Once all PAC requirements have been met, the Board of Trustees will vote on a Loan Commitment

LOAN COMMITMENT PACKAGE

After the Board of Trustees approves a Loan Commitment, the Trust sends a Loan Commitment Package.

- Commitment information and conditions outlined
- Instructions on obtaining a **Green Light Letter** from local bond counsel and completing the **Loan Questionnaire**

LOAN QUESTIONNAIRE

- Ensures the Trust is complying with laws and regulations for issuing tax-exempt bonds
- Contact information for community
- Select loan terms and amortization
- Other relevant financial information (Credit rating, sources of repayment, etc.)

GREEN LIGHT LETTER

- Issued by local bond counsel and submitted to the Trust
- Certifies that the local vote to authorize is legal

Note: Loan proceeds **cannot** finance local bond counsel costs

PROJECT BIDDING & AUTHORIZATION TO AWARD

DEADLINE

For loan forgiveness eligible projects, the first executed construction contract must be awarded by **June 30, 2021**.

Construction projects financed through the SRF are owned and managed by the community. MassDEP ensures that the project and procurement processes adhere to SRF requirements.

MASSDEP REQUIREMENTS:

- Give the community “Permission to Advertise” for bidding to begin
- Bidding generally occurs once the Board of Trustees approves a PAC
- MassDEP will review the procurement and identify any ineligible costs

UPON RECEIVING ACCEPTABLE BIDS:

- MassDEP Civil Rights Section reviews and approves Disadvantaged Business Enterprise (DBE) participation
- “Authorization to Award” issued upon review and approval of bids
- The Project Regulatory Agreement (PRA) amount for Board of Trustees vote is based on the construction and services contracts plus a 5% contingency

PROJECT REGULATORY AGREEMENT (PRA)

- Usually issued at the same time as the “Authorization to Award”
- States that the community agrees to follow the terms and conditions of MassDEP
- Details the scope of the project
- Outlines the project timeline
- Lists estimated disbursements
- Lists eligible costs

FINANCING AGREEMENT PACKAGE

The Trust sends a Financing Agreement Package after the Board of Trustees approves the Project Regulatory Agreement (PRA) and the Trust has received a Green Light Letter and a completed Loan Questionnaire

- The Trust will create a Financing Agreement
 - States that the community agrees to follow the terms and conditions of the Trust
 - Outlines loan information
 - Contains a draft repayment schedule
- This package contains instructions, the PRA, and the Financing Agreement.
- Communities are to follow the instructions on signing and returning the PRA and the Financing Agreement [for each loan.](#)

INTERIM LOAN CLOSING

- Loans during construction at **0% interest** and **no fees**.
- Makes loan proceeds available during construction and before the Trust issues bonds.
- Interim loan closing instructions are part of the Financing Agreement Package.
- Eliminates the need to issue interest accruing, additional fee bearing BANs.

Interim Loans	BANs
No Fees	Fees
0% Interest	Interest

LOAN REPAYMENT (PERMANENT FINANCING)

Permanent financing is the term used by the Trust when loans are put into repayment.

WHEN SHOULD COMMUNITIES EXPECT TO HAVE THEIR LOANS PUT INTO REPAYMENT?

Loans are generally selected for permanent financing when:

- Half of more of the loan proceeds have been drawn; or
- The project is expected to be completed within a year

WHAT IS THE PROCESS FOR PERMANENT FINANCING?

- Communities are contacted by the Trust months ahead of loan closing
- The Trust sends verification forms to communities, bond counsels and financial advisors.
- Verification forms ask similar questions to the Loan Questionnaire
- After loan closing, a final repayment schedule is sent to the community and posted on the Trust's website.

WHEN ARE PAYMENTS DUE?

- **January 15th** and **July 15th**
- Due dates will be listed on final repayment schedules
- Invoices are sent to communities a month in advance of due dates

The Trust is available throughout this process to help with forms, verify loan amounts, and answer any questions

DISBURSEMENTS & PROJECT CLOSEOUT

DISBURSEMENTS

- “Payment requisitions” are completed by the community and forwarded to MassDEP with the appropriate supporting documentation (receipts, invoices, signed change orders, etc.)
- MassDEP reviews requests and approves appropriately documented eligible costs within a week
- MassDEP forwards approved requests to the Trust
- The Trust will conduct a final review
- The Trust wires funds every Thursday with funds often available to communities the next day

PROJECT CLOSEOUT

- Process Initiated when the project is 90% complete
- Prior to receiving the final disbursement, the community shall file a Project Completion Certificate with MassDEP

MassDEP has set up a **dedicated email account** to facilitate electronic submittal of the payment request packages DMSDEP.General@mass.gov

LOAN TERMS AND FEES

	Permanent Financing	Interim Financing
Standard Loan Rate	2% (20 Years) Calculated (30 Years) ¹	0%
Housing Choice Loan Rate	1.5% (20 Years) ²	0%
Nutrient Enrichment Reduction Rate	0%	0%
Maximum Term	30 Years ³	3 Years
Administrative Fee	0.15%	NA
Origination Fee (One Time)	Approx. \$5.50/\$1,000	NA
Effective Loan Rate	2.15% (20 Years)	0%

1. Rate calculated at time of bond sale, estimated between 2.4-2.9%

2. Communities designated as housing choice communities on the 2019 and 2020 IUPs are eligible for an interest rate discount up to 0.5% for permanent financing.

3. Requires useful life certificate certifying useful life will match or exceed the life of the loan

DEBT SERVICE SCHEDULE (SCHEDULE C)

Draft Schedule C

Prepared by MWPAT

Apr, 8 2020 - 3:39 PM

Massachusetts Clean Water Trust Preliminary Structuring Analysis Your Community CW-20-00

Initial Loan Amount	1,000,000.00	Loan Origination Fee (\$5.5/1000)	5,500.00
Loan Forgiveness*		Loan Term (in years)	20
Net Loan Obligation	1,000,000.00	Loan Rate	2.00%
		Closing Date	9/15/2022
		First Interest	1/15/2023
		First Principal	7/15/2023

Date	Principal	Interest	Total Debt Service	Admin Fee (0.15%)	Loan Origination Fee	Total Debt Service	Annual Debt Service
9/15/2022							
1/15/2023		6,666.67	6,666.67	750.00	5,500.00	12,916.67	12,916.67
7/15/2023	40,451.00	10,000.00	50,451.00	750.00		51,201.00	
1/15/2024		9,595.49	9,595.49	719.66		10,315.15	61,516.15
7/15/2024	41,330.00	9,595.49	50,925.49	719.66		51,645.15	
1/15/2025		9,182.19	9,182.19	688.66		9,870.85	61,516.01
7/15/2025	42,229.00	9,182.19	51,411.19	688.66		52,099.85	

IMPORTANT DATES AND DEADLINES

Final IUP Publication	April 2020
Town Meeting/City Council Vote	October 16, 2020
Loan Application to MassDEP	<i>On or Before</i> October 16, 2020
MassDEP is to Issue a PAC	<i>On or Before</i> December 31, 2020
Project Contract Award/Notice to Proceed	<i>Within 6 months</i> of PAC issuance
Project Bidding General Timeframe	<i>Between</i> January 1 and June 30, 2021
Loan Forgiveness, Executed Construction Contracts	June 30, 2021
Loans in Repayment, Payments are Due to the Trust	January 15 th and July 15 th

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